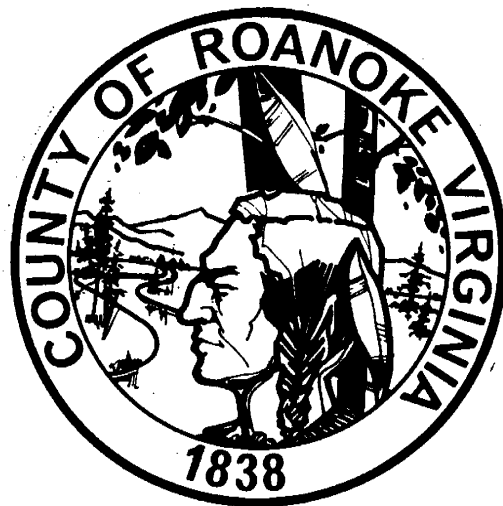


Organizational Policies, Plans & Analyses



Financial Policies

Financial Policies

Financial management policies assist in providing a basic framework for the overall fiscal management of a federal, state, city or county government. These policies allow changing circumstances and conditions to be addressed and act as an aid in the decision-making process. Financial policies represent guidelines for evaluating current activities, establishing priorities, setting directions, and managing and channeling growth. Policy development should underscore organizational strengths and facilitate the elimination of organizational weaknesses.

Roanoke County has recognized the need to develop financial management policies that reflect longstanding principles and practices that have enabled the county to maintain its sound financial position. This section provides a brief overview of each policy used by the County, which include:

- Balanced Budget
- Financial Improvement Policy
- Debt Policy
- Unexpended Appropriations Policy
- Fees and Charges
- Use of One-Time Revenues
- Reserve or Stabilization Accounts

Balanced Budget

The County's Annual Budget Ordinance will be balanced, adopted and administered in accordance with the Local Government Budget and Fiscal Control Act (N.C.G.S.159-8[a]). This act states that a budget ordinance is balanced when the sum of estimated net revenues and appropriated fund balances is equal to appropriations.

The County of Roanoke will develop balanced budgets in which current resources (current revenues plus fund balance) will equal or exceed current expenditures. The County will avoid budgetary procedures that balance the budget at the expense of meeting future years expenses, such as: postponing expenditures, accruing future years revenues, or rolling over short-term debt.

Financial Improvement Policy

This policy's objective is to reduce or eliminate short-term borrowing and to improve the County's bond rating to an AA+ or AAA. The policy offers a number of strategies to achieve these goals, including:

- Building reserves to an acceptable level (at least 8% of general fund expenditures.)
- Limiting lease/purchase financing.
- Analyzing the potential for and implementing user fees in order to achieve a more timely match of revenues and expenditures.
- Aggressively pursuing delinquent accounts.
- Improving the economic mix to increase the commercial tax base.
- Continue annual reassessment of real estate.

Debt Policy

This policy establishes guidelines and limitations for the issuance of debt. The policy addresses the level of indebtedness the County can reasonably expect to incur without jeopardizing its financial position and to ensure the efficient and effective operation of the County. This policy is to be used in conjunction with the Operating and Capital Improvements Budget and other financial policies. The County will measure its level of debt through three ratios:

- Net Debt Per Capita should not exceed \$1,500. Net Bonded Debt Per Capita at year-end 2002 was \$1,136.
- Net Debt to Assessments should not exceed 3%. Net Debt to Assessed Values at year-end 2002 was 1.71%.
- Debt Service to General Fund Expenditures should not exceed 10%. Debt Service to General Fund Expenditures at year-end 2002 was 5.44%.

Unexpended Appropriations Policy

Adopted in 1996, this policy establishes directives for the disposition of unspent expenditure appropriations at the conclusion of each fiscal year. A portion of these unspent funds will be set aside for departmental requests for investment in items that will assist them in meeting their service delivery objectives. The remaining portion of these year-end savings will revert to the Capital Fund for financing future capital projects approved by the Board of Supervisors.

A performance standard is included in the policy which prevents departments from saving funds at the expense of the quality of services provided. The policy itself establishes the following:

- 60% of unencumbered funds from each department is returned to the department for identified non-recurring items.
- The remaining 40% reverts to the Capital Fund for future capital projects approved by the Board of Supervisors.

The intent of this policy is to encourage frugal management of resources while providing innovative financial strategies to allow for future capital projects.

Fees and Charges

The County, where possible, will institute user fees and charges for specialized programs and services in the County. Rates will be established to recover operational as well as overhead or indirect costs and capital or debt service costs. The County will regularly review user fee charges and related expenditures to determine if pre-established recovery goals are being met.

Use of One-Time Revenues

The County's goal is to pay for all recurring expenditures with recurring revenues and to use nonrecurring revenues for nonrecurring expenditures. The County will try to maintain a diversified and stable revenue structure to shelter it from short-run fluctuations in any one revenue source.

Reserve or Stabilization Accounts

The General Fund undesignated fund balance will be maintained at a level sufficient to provide for the required resources to meet operating cost needs, to allow for unforeseen needs of an emergency nature, and to permit orderly adjustment to changes resulting from fluctuations of revenue sources.

Financial Planning Processes

Financial Planning Processes

Financial policies are an essential component to the success of any organization, but alone they are not sufficient to ensure that an organization is managed effectively. With this in mind, Roanoke County has taken several steps toward a meaningful, integrated long-range planning process. Roanoke County's financial planning process is comprised of both strategic and operational planning to ensure economic stability and financial success.

STRATEGIC PLANNING

The strategic planning phase of the County's long-range planning process includes Community Master Planning, Departmental Business Planning, and Capital Planning. These planning components identify the County's development goals as well as the departmental strategies and capital investments needed to accomplish those goals.

Community Master Planning

The Roanoke County Community Plan, adopted by the Board of Supervisors in 1999, is a blueprint for the future growth and development of the County and covers a time period from 1999 to 2010. This planning document is developed with a great deal of public participation and presents a snapshot of the County's long range goals, policies and strategies to the community.

The Community Plan provides direction in making decisions about land development, public services and resource protection. It ensures citizens that decisions based on the Plan are well-thought out and in the best interests of the County as a whole. In addition, it is used by the departments in creating business plans and in prioritizing Capital Improvement Projects. In order to keep this plan up to date, the County is committed to reviewing, and revising where necessary, the plan every five years.

Departmental Business Planning

This component of the long-range planning process emerges during the development of the annual budget. The departmental business plan outlines strategies for implementing the department's portion of the organizational mandate. Departmental goals and objectives are established in agreement with the Community Plan and Board priorities. The plans are submitted to the Board of Supervisors during the annual budget process for review and are used to facilitate the development of Resource Allocation Plans. These departmental business plans are reproduced in this Annual Fiscal Plan.

Capital Planning

As part of the intensive strategic planning initiative, Roanoke County also maintains a five-year Capital Improvement Program. The underlying strategy for the Capital Improvement Program (CIP) is to plan for the construction and maintenance of investments necessary to provide public services in compliance with the County's Comprehensive Plan and other adopted policies. By looking beyond the current year and projecting what, where, when and how capital investments should be made, capital programming enables the County to maintain an effective level of service for both the present and future population.

County citizens involved in the Capital Improvements Program (CIP) Review Committee facilitate the prioritization of projects within the CIP and identify the most pressing capital needs from a community perspective. Based on their evaluations, the committee members objectively rank each capital project and submit their results to the Board to be considered when developing the annual budget. This capital planning phase incorporates the importance of public involvement in the strategic planning process.

OPERATIONAL PLANNING

The Operational Planning phase of the County's long-range planning process includes Resource Allocation Planning, Budget Planning, and Evaluation. These operational planning components promote successful implementation of county-wide goals identified in the strategic planning phase by ensuring departments are appropriately organized to respond to priorities.

Resource Allocation Planning

Resource allocation planning involves the matching of service level priorities with available human and financial resources. The allocation of scarce resources must consider all potential demands and the impact of providing one project, service or function over another. As part of this planning process, County services are prioritized, service levels are determined, and alternative service delivery mechanisms are evaluated. Resource allocation plans are then established using the results of Community Master Planning, Strategic Planning, and Departmental Business Planning.

Performance measures are an effective way to ensure efficient resource allocation. The county continues to refine and integrate the development of departmental performance measures into our formal planning processes.

Budget Planning

The annual budget provides detailed plans for the upcoming year. The budget process continues to focus on Business Planning and Investment Budgeting. The Investment Budgeting concept is based on the idea that, by choosing to live in this community, the citizens of Roanoke County are investing their tax dollars in our services. Departments must answer the question, "what is the return on investment to the citizens that your department provides?" In the future, the county's budget development process will rely on this investment concept by using performance measures to ensure that expenditures fulfill the purpose of providing quality services to county residents.

Evaluation

One of the most important, and often overlooked, components of any planning process is evaluation. There are two levels currently being considered under Roanoke County's model:

- *Evaluation of the Organization's Long-Range Plan* - The County Administrator and Assistant County Administrators will annually review the county's long range planning strategy and process to determine if it is accomplishing what it has set out to achieve.

- *Evaluation of Departments* - At the close of each fiscal year, operating departments prepare a report describing their department's mission and any significant challenges encountered in pursuit of the stated objectives. The report highlights notable accomplishments during the fiscal year as well. These reports are accumulated by the Department of Management and Budget and published in a document titled the **Departmental Annual Report**. This document is distributed to the Board of Supervisors, Administration, and all department heads for review and comment. This report is used during departmental evaluations for planning purposes to adjust or change departmental goals and objectives as needed. Measuring success on the fulfillment of goals, objectives and performance measures outlined in the business plans will focus departmental activities and lead to more effective business planning.

These strategic and operational long-range planning components are individually important and collectively vital to ensure Roanoke County has a strong foundation for future growth. The county will continue efforts in the development of meaningful performance outcome measures, continued refinement of business plans, constant updates of community visions and Board priorities and a realistic look into our financial future.

Financial Analyses

Financial Analyses

Financial and economic analyses are the building blocks of a fiscally well managed federal, state, city or county government. These analyses assist in addressing changing circumstances and conditions and act as an aid in the budgetary process. Analyses can be used to help forecast revenues and relevant economic trends that have financial ramifications for governments.

Roanoke County has recognized the need to perform financial analyses so that the county can maintain its sound financial position. Currently, three main analyses are performed annually. They are:

- Financial Trend Analysis
- General Fund Revenue Analysis
- Statistical Economic Modeling

Each of these analyses helps government officials maintain or improve the County's financial position. The financial trend and revenue analyses are included within this section. Statistical economic modeling entails the budget staff's effort to assess current economic conditions. It involves review of relevant sources (e.g., *Blue Chip Economic Indicators*, *Kiplinger's Letter*, etc.) and development of a projection of local economic conditions to facilitate revenue projection and determine available resources.

The goal of Roanoke County's policy, planning and analysis efforts are to achieve a AAA bond rating, maintain a healthy fund balance, attain self-insurance, and provide high quality services with a focus on education, public safety, and economic development.

Financial Trend Analysis

Local, state, and national economic conditions all influence the complex environment in which Roanoke County operates. This Financial Trend Analysis is an attempt to quantify the volatile factors that affect the local government's ability to provide services to its citizens. Results of this analysis describe the financial strengths and weaknesses of Roanoke County to the governing body, management, credit rating firms and citizens. The results will also assist the Board of Supervisors in setting priorities, establishing policies, and providing a logical way of introducing long-range considerations into the annual budget process. The County of Roanoke uses the International City Management Association's Financial Trend Indicator Monitoring System as a basis for analysis.

In the analysis, the County's budgetary and financial reports are combined with selected economic and demographic data to create local financial indicators. When observed over time, these indicators can be used to monitor changes in the government's financial condition. In many instances, indicators are reported as a percent of General Fund revenues or net operating revenues. Net operating revenues include the General Fund and a Component Unit comprised of all school accounts.

Economic Outlook

The national economy in 2003-04 transitioned from a mild recession to a much anticipated recovery finally materialized with federal income tax cuts along with low interest rates which jump started the stalled economy. Several factors contributed significantly to the change in the U.S. economy: large income tax refunds, business investment, better profits, a return in job growth, and strong security and defense spending. These economic factors contributing to the boosted economy affected consumer and business confidence and resulted in increased consumer spending. The Gross Domestic Product (GDP) averaged 3.0% for all of 2003, up from 2.4% in 2002, with consumers spending towards vehicles and housing purchases due to income tax cuts and low interest rates.

The rate of unemployment in Roanoke County for March 2004 was 2.3%, remaining below the 3.4% rate for the Commonwealth of Virginia, as well as below the national average of 6.0%. Over the past three fiscal years, Roanoke County's unemployment rate has been on average 1.6 percent less than the state unemployment rate, and 3.2 percent less than the national average.

Inflation remains low with the March 2004 seasonally adjusted consumer price index 2.2% greater than the 2003 average. Although there is continued strength in consumer spending and increasing business investment, inflation is not a concern at this time.

The economic recovery is expected to continue throughout 2004. Economic performance is expected to be maintained due to the presidential election year and large income tax refunds. Continued increases in consumer spending, business investment, and federal spending are anticipated. Although the outlook is good, the frequent elevated alert levels, Iraq reconstruction, slow job creation, and rising fuel prices could threaten economic growth. In addition, interest rates will rise slowly as the Federal Reserve's emphasis shifts from boosting the economy to preventing inflation.

While Roanoke County's revenue growth mirrors national trends, economic activity in the Roanoke Valley is somewhat insulated from volatility in the national markets. The County

has a diverse economic base that helps protect local markets from an unpredictable national economy. Significant economic development efforts continue to increase and further diversify the local tax base. Furthermore, the County's low unemployment, low inflation rates, and conservative expenditure practices will help to minimize the effects of the unstable economy. Additionally, Roanoke County has built a fund balance of \$18,543,642 that provides some flexibility in responding to unplanned events without compromising service levels.

Even with many factors favoring the local economy, Roanoke County must remain attentive to financial trends to ensure that expenditures do not increase faster than revenues. Despite Roanoke's insulation from the national economy, major national trends do eventually touch local markets. If Blue Chip and other forecasts are correct, Roanoke County will see slow growth of general property tax revenues and a potential drop in sales tax revenues. Federal and state support to local governments is expected to continue declining in coming years.

Revenue Indicators

Revenue indicators demonstrate the County's capacity to provide and finance services. Important issues to consider are growth, diversity, reliability, flexibility and administration. Under ideal circumstances, revenues would increase at a rate equal to or greater than the pace that expenditures grow because of inflation and adjustments in service. They would be sufficiently flexible to allow necessary adjustments to changing conditions. Some revenue sources would be stable under negative market conditions and others would expand with a growing economy. The revenues would come from diverse sources eliminating dependence on any one particular source. User fees would be regularly reevaluated to cover the full cost of services.

When this preferred financial climate is maintained, a balanced budget is easier to achieve. Through the examination of revenue indicators, problem areas can be identified and corrective actions developed to avoid future financial difficulties. Problem areas might include:

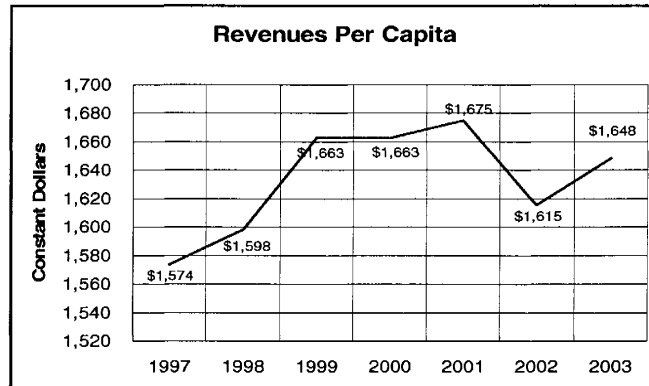
- Deterioration of the revenue base.
- Major changes in the size or distribution of the tax burden.
- Over dependence on obsolete or external revenue sources.
- Lack of cost controls or poor revenue estimating practices.
- User fees that are not covering the cost of services.
- Inefficiency in the collection or administration of revenues.

Roanoke County has attempted to analyze its revenue structure through the examination of the following revenue indicators: 1) revenue per capita, 2) property tax revenue, 3) uncollected property taxes, 4) intergovernmental revenues, and 5) revenue shortfalls.

Revenues Per Capita

This trend is monitored by comparing net operating revenues (excluding interfund transfers and beginning balances) to the County's population. In theory as the County population increases, the need for services increases proportionately. Therefore, the level of per capita revenues should remain at least constant in real terms. If per capita revenue decreases, the County could not maintain existing service levels without new revenue sources or cost reductions. Total revenues per capita for FY 2002 and FY 2003 were \$1,615 and \$1,648 respectively, while General Fund revenues per capita were \$1,181 and \$1,202.

Despite the sluggish economic conditions, we had a slight increase in revenues per capita from FY 2002 to FY 2003. Forecasts for slower growth in property values and retail sales indicate that per capita revenues may become stagnant in coming years, stressing the County's ability to maintain service levels.

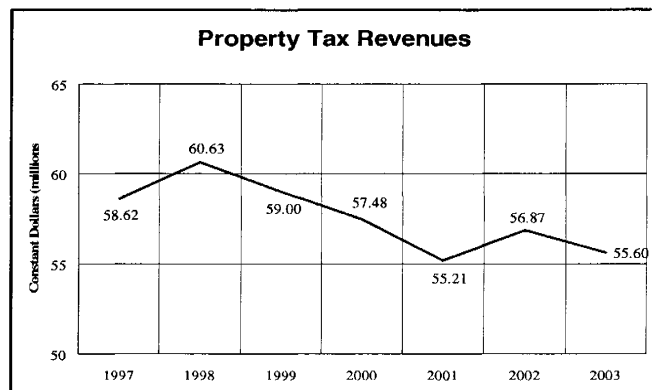


Property Tax Revenues

Property tax revenue indexed to the CPI is one of the more important indicators. Revenue from property taxes is the County's primary source of revenue. A decline in property tax revenue could result from any of the following:

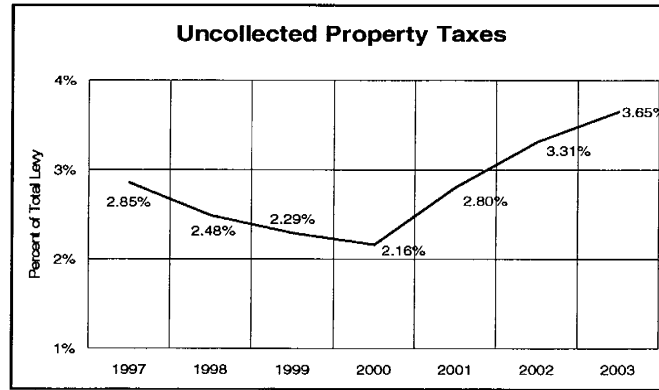
- Declining property values due to building stock deterioration or adverse economic conditions.
- Inability or unwillingness of property owners to pay taxes.
- Inefficient assessment or appraisal practices.
- Infrequent reassessments.
- Changes in the tax rate.
- Structural changes in the administration of the tax.

Annual reassessment, instituted in 1987, assures that property is taxed at its present value. During 1998 there was a major change in the administration of personal property taxation (and the reporting of the related revenue). The Virginia Personal Property Tax Relief Act of 1998 enacted a phase-out of local personal property taxes over a 5-year period. The state would then reimburse localities for the lost revenue. Beginning in 1998, personal property revenue has shown a decline. This decline does not reflect a real loss in revenue, but a change in reporting. The "phased-out" revenue that is reimbursed from the state is now recorded in Intergovernmental Revenue, as these funds are now appropriated from the Virginia General Assembly.



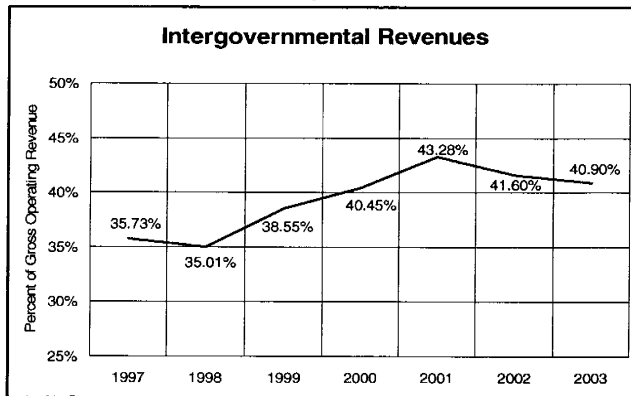
Property tax revenues are particularly important during slow economic times. When revenue from other sources declines, property tax revenues remain relatively stable. This consistency allows Roanoke County to maintain delivery of services to its citizens. General property tax revenues comprised 65.1% of General Fund revenues in FY 2003. This revenue category is critical to the operations of Roanoke County government, especially when compared to other major revenue units in the General Fund. Sales tax revenue contributed only 5.14% to General Fund revenues for FY 2003; and, revenues from the Commonwealth of Virginia were approximately 6.96%. The critical state budget situation and an uncertain national economy may negatively influence the future funding of state revenues to the localities.

Uncollected property taxes, expressed as a percent of the total tax levy, have slowly increased since FY 2000. As a rule, rating agencies consider 5-8% of uncollected taxes or two years or more of increasing rates of delinquency as negative factors. A rate increase to 3.65% is reported for FY 2003. Currently, the County is using the State Department of Taxation debt set-off collection procedure, an automated delinquent tax collection system. Higher interest rates on unpaid balances are also being used to discourage delinquency.



Intergovernmental Revenues

Intergovernmental revenues are those funds received from another governmental entity. For Roanoke County, these sources have included recovery of indirect costs and other revenue from the Commonwealth for schools and constitutional officers and General Revenue Sharing. Intergovernmental revenues are compared to total revenues to show the



degree to which Roanoke County relies on state and federal funding sources. Excessive dependence on these types of revenues can result in local financial instability. If external revenue sources are withdrawn, the municipality must either eliminate services or finance the program from the General Fund.

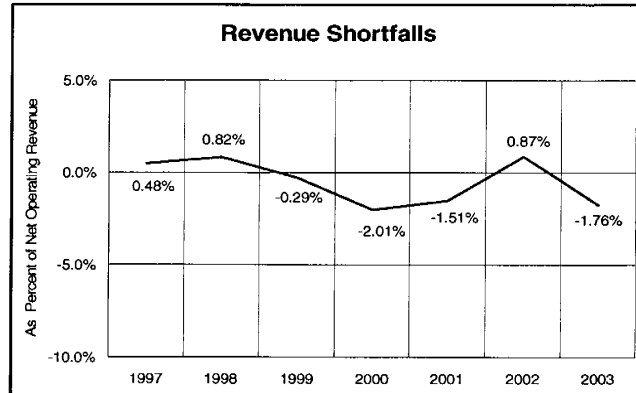
Though intergovernmental revenues are, by nature, contingent upon economic conditions, political

factors determine the size and types of transfer payments. Trends for most revenue items can be predicted by analyzing historical data and the presiding economic environment. Intergovernmental revenues, however, cannot be as easily ascertained. As the graph indicates, this revenue source has fluctuated over the period of analysis.

The significant decrease from FY 2001 to FY 2002 from 43.28% to 31.83% resulted from implementation of GASB 34 reporting, debt refinancing, and new bond issuance for capital improvement projects. Roanoke County has shown an overall trend towards decreased reliance on intergovernmental revenues; and, local government has managed to compensate for reduced state funding with local revenues. This percentage decreased further to 31.39% in FY 2003.

Revenue Shortfalls

Revenue shortfalls represent the percent difference between budgeted and realized net operating revenue. Positive shortfalls indicate overestimation of the County's revenue; negative shortfalls indicate that revenues exceeded budgeted revenue forecasts. Higher shortfalls may indicate a declining economy, inefficient or ineffective collection procedures, or overly optimistic budget estimates.



As indicated in the graph, budgeted revenue closely matched realized net operating revenue each year. This trend indicates budget estimates are generally accurate; thus creating a stable environment to develop expenditure budgets.

Expenditure Indicators

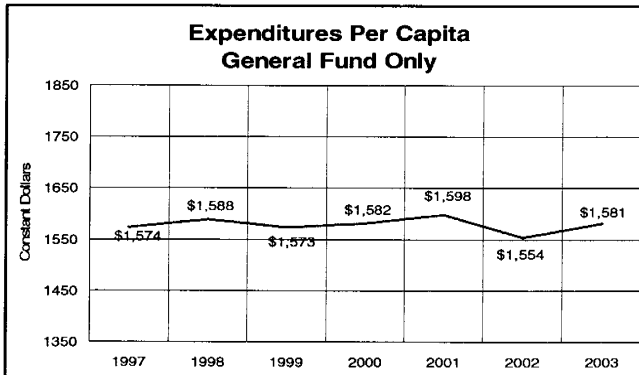
Expenditure indicators quantify the County's service provision activities. The indicators monitor whether or not the local government operates within its revenue base. Even though the County is required by law to have a balanced budget, a budget may be balanced such that expenditure outlays and commitments increase more rapidly than revenues. This can occur if there is excessive reliance on intergovernmental grants, reserves are depleted, maintenance on infrastructure and equipment is deferred, or financing of future liabilities is delayed. In each of these cases, the annual budget remains balanced, but the long-run budget develops a deficit.

Analyzing the County's expenditure profile will help identify the following types of problems:

- Expenditure growth above revenue growth.
- Undesired increase in fixed costs.
- Ineffective budgetary controls.
- Declining productivity.
- Excessive growth in programs that create future expenditure liabilities.

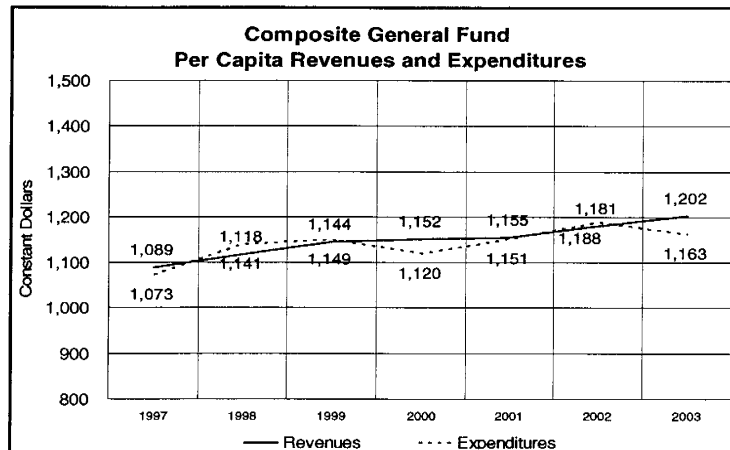
Expenditures Per Capita

Expenditures per capita reflect changes in government spending taking into account changes in the population served. Increasing per capita expenditures can indicate that the cost of providing services is outstripping the community's ability to pay, especially if spending is increasing faster than the community's personal income or other relevant tax bases. Also, if expenditures increase at a rate greater than inflation and cannot be explained by the addition of new services, then declining productivity may be to blame.



Total expenditures per capita should be reasonably constant unless service levels change, the scope of service expands, or other identifiable causes exist. The data reflects a 2.75% decrease between FY 2001 and FY 2002, followed by a 1.73% increase between FY 2002 and FY 2003 in per capita expenditures for the general fund.

The composite graph compares per capita revenues and expenditures to depict disparity between the County's ability to generate revenue and historical spending patterns. The excess of revenues over expenditures per capita in FY 2003 was due primarily to conservative spending practices combined with conservative budgeting practices that resulted in significant year-end surpluses.

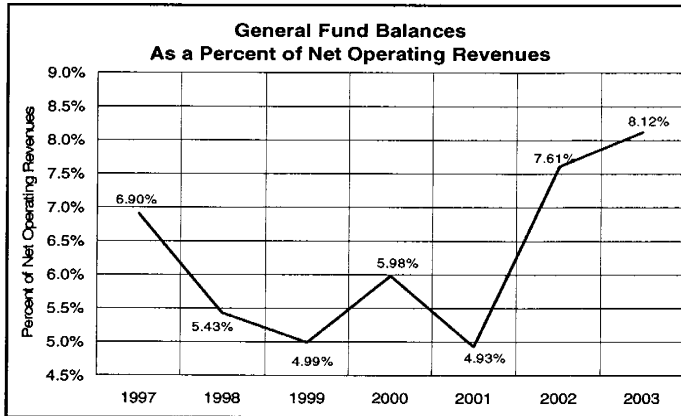


Operating Position Indicators

Operating position refers to the County's ability to: 1) balance the budget using current revenues, 2) maintain reserves for emergencies, and 3) maintain sufficient cash to pay expenses in a timely manner.

General Fund Balances

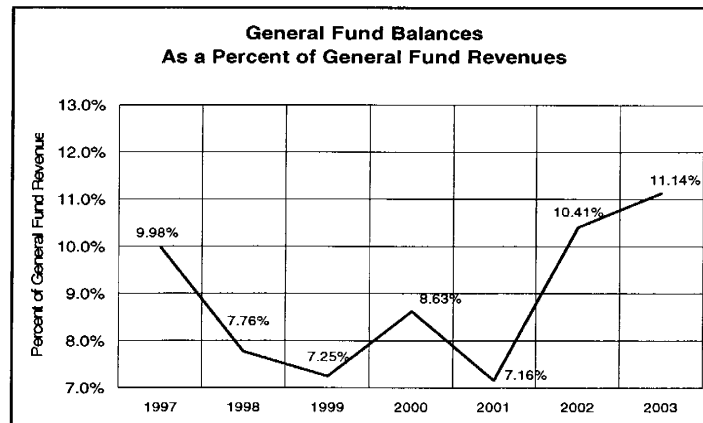
The first operating position indicator compares the General Fund Unrestricted Fund Balance to net operating revenues; the second compares the General Fund Unrestricted Fund Balance to General Fund revenues only.



The amount of the County's fund balance gauges the ability to survive unexpected financial emergencies, such as revenue shortfalls, natural disasters, higher-than-anticipated inflation, and other unplanned expenditure requirements. Also demonstrated through these indicators is the County's ability to save funds for major capital purchases.

The implementation of the new GASB 34 reporting standards have impacted the figures represented in the corresponding charts. The new standards set forth new criteria for what is considered designated and undesignated funding levels.

In the distant past, Roanoke County used fund balances to finance operating expenditures instead of adjusting tax rates and fees to balance the budget. As a result, the General Fund balance fell to an unacceptable level. Bond rating agencies now suggest that Unrestricted Fund Balances be maintained at 7-10% of operating revenues.



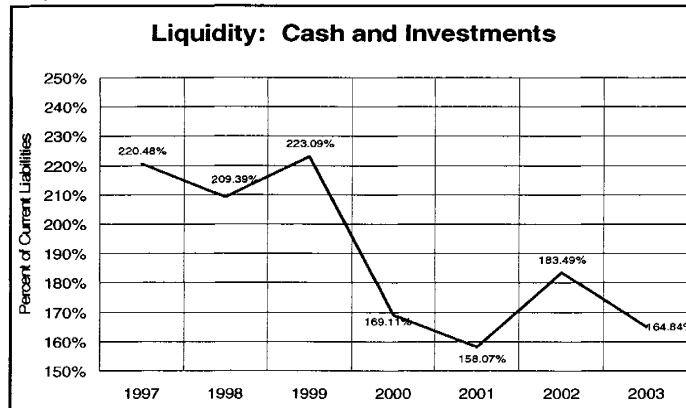
The table below shows year-end balances in the Unrestricted General Fund. The Unrestricted General Fund Balance as a percentage of General Fund revenues has fluctuated between 7.2% and 10.0% during the period of analysis. The challenge facing Roanoke County in coming years continues to be maintaining the Unrestricted Fund Balance during less favorable economic times.

Unrestricted Fund Balance	Amount	Percent of Revenue
June 30, 1994	\$7,123,594	8.7%
June 30, 1995	\$6,994,906	8.0%
June 30, 1996	\$8,616,891	9.4%
June 30, 1997	\$9,617,873	10.0%
June 30, 1998	\$7,947,047	7.8%
June 30, 1999	\$7,808,973	7.3%
June 30, 2000	\$9,908,641	8.6%
June 30, 2001	\$8,572,593	7.2%
June 30, 2002	\$9,070,656	7.2%
June 30, 2003	\$10,461,285	8.0%

The Board of Supervisors adopted the Financial Improvement Plan for Roanoke County on February 14, 1989. The Board hoped to achieve two things through the adoption of this Plan: 1) to reduce or eliminate short-term borrowing and 2) to improve the County's bond rating to AA+ or AAA. To accomplish these objectives, the County established a goal of increasing the Unrestricted General Fund Balance to 8% of General Fund revenues by June 30, 1993. Conservative budgeting practices continue because of uncertain economic conditions and the subsequent effects on local revenues.

Liquidity

Liquidity, as presented here, compares cash and short-term investments to current liabilities. Overall, Roanoke County has a favorable liquidity ratio and sufficient reserves of liquid assets to meet short-term liabilities. Due to the County's conservative budgeting practices and continued growth of reserves for self-insurance, the County's liquidity increased from FY 2001 to FY 2002 from 158% to 183.5% respectively. The chart shows a decrease to 164.8% during FY 2003.



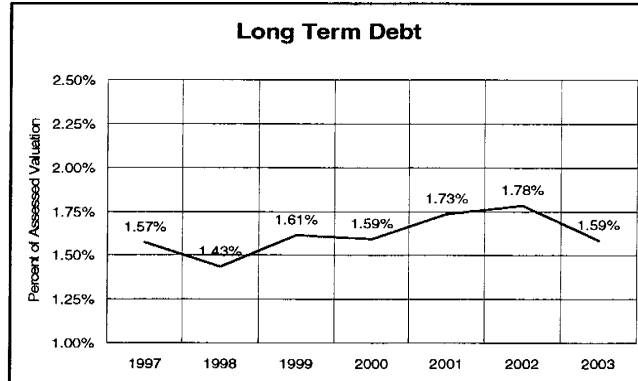
Debt Indicators

Debt is an explicit expenditure obligation that must be satisfied when due. Short-term debt is generally used to balance cash flow. Long-term debt, most commonly issued as general obligation or revenue bonds, is used for capital projects and construction. Misuse of debt can create serious financial problems, because even a temporary inability to pay can result in lower bond ratings. Financially, a lower bond rating results in higher interest rates for future bond issues. The County's debt is closely monitored to ensure that outstanding debt does not exceed the ability to pay. Under favorable circumstances, the County's debt should be proportionate in size to its tax base. Debt repayment schedules should not extend beyond the expected life of the financed asset. Debt should not be used to balance the operating budget, nor should payments put excessive burdens on the operating budget.

Long-Term Debt

The County's ability to repay its debt is determined by comparing net direct long-term debt to assessed valuations. Direct debt is debt for which the County has pledged its "full faith and credit". Net direct long-term debt is direct debt minus self-supporting debt, such as revenue bonds. In general, an unfavorable trend occurs when net direct long-term debt increases as a percentage of assessed valuations. An increasing debt ratio indicates that long-term debt may exceed the County's resources for financing the debt. This could lead to numerous problems that include making it difficult for the County to obtain future financing, receive low interest rates, or fulfill current debt obligations. Bond rating agencies

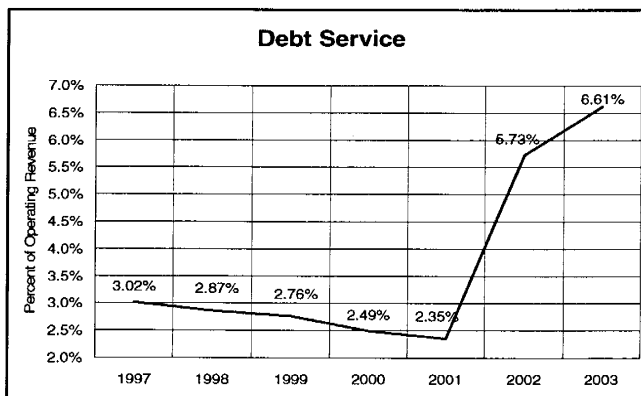
recommend that net direct long-term debt not exceed 5% of assessed valuations. In FY 1996, the Board of Supervisors adopted a formal Debt Policy and Unappropriated Balance Policy to address maximum debt ratios, capital funding needs and other debt concerns.



Roanoke County's long-term debt indicator is favorable. The percentage of net direct long-term debt compared to assessed valuations remains well below the 5% level at 1.59% for the FY 2003. A large backlog of capital projects, primarily school construction projects, threatens Roanoke County's ability to maintain the present low debt ratio.

Debt Service

Debt service is the amount of principal and interest that the County is obligated to pay each year on net direct long-term debt, plus the interest it must pay on direct short-term debt. As debt increases, the County's obligations are increased; and simultaneously, the County's



expenditure flexibility is decreased. Debt service is analyzed by comparing debt service to net operating revenues. Bond rating agencies recommend localities keep debt service at or below 10% of net operating revenues.

From FY 1997 to FY 2001, debt service as a percent of net operating revenue steadily decreased. In FY 2002, the implementation of the new GASB 34 reporting standards

required the County of Roanoke to include Roanoke County School's debt. The new reporting standards and issuance of new bonding debt for a new high school is depicted in the FY 2002 5.73% of operating revenue for debt service. The FY 2003 debt service increased to 6.61% of net operating revenue. Debt service as a percent of net operating revenue remains substantially below the recommended maximum and is expected to remain so.

The County Board of Supervisors acted to address school capital needs as recommended in an intensive study. Major renovations at several sites and the construction of a new high school require additional long-term financing. These commitments require careful planning and review to ensure that the County does not exceed acceptable debt ratios.

Summary

This Financial Trend Analysis indicates that the County of Roanoke enjoys a stable financial position. Review of the composite per capita trend for revenues and expenditures indicates that revenues exceed expenditures by a comfortable margin. Property tax revenues have grown, but full consequences of Virginia's Personal Property Tax Relief Act are still unclear (see General Fund Revenue Analysis). The uncollected property tax rate must be closely monitored.

FY 2003 intergovernmental revenues as a percent of net operating revenues decreased to approximately 31.4%. The County has become more reliant on non-local revenue sources as mandates from the state and federal government continue to increase. This scenario could prove problematic because of changes in philosophy and management at the state level. Long-term debt trends are remaining favorable; and, debt service as a percentage of net operating revenue is well within the established guidelines. These positive trends could be threatened by a backlog of capital projects. School construction already in process as well as anticipated needs are substantial and could impact the County's debt ratios.

A primary objective of Roanoke County administration is to maintain the Unrestricted Fund Balance without decreasing service levels during times of slow economic growth. As is true in many municipalities, revenue sources are somewhat vulnerable. Despite predictions of a growing national economy, the County should keep a relatively large fund balance as a shield against deficit spending in the future. Sound management will not use this reserve as a passive method of balancing future budgets.

Revenue Analysis

Total General Government revenues for FY 2005 are estimated to be \$136,228,566. The projected increase of \$8,298,642 represents a 6.5% increase over the FY 2004 amended budget. Revenue growth in some categories is healthy while in other revenue categories it is sluggish. For example, real estate values and retail sales have shown strong growth; however, used car values have decreased. The County continues to be conservative in projecting revenues.

Roanoke County's principal source of operating funds is locally generated revenues. The County expects local revenues to account for approximately 91.4% or \$124.5 million of the FY 2005 General Government revenue budget. Budgeted local revenues for FY 2004 accounted for 90.9% or \$116 million of the General Revenue; with real and personal property taxes generating 72.3% or \$84.0 million of that local revenue. For FY 2005, the County of Roanoke expects real estate tax revenues to comprise 51.8% of the local revenue. Personal property tax revenues are projected to contribute 20.4% of local revenues in FY 2005. Sales tax revenue as a percentage of total local revenues will increase slightly from 5.5% in FY 2004 to 5.9% for FY 2005.

Traditionally, the Commonwealth contributes approximately 7% of the total General Government Fund budget. These estimates do not include state funding for the school system. School revenue is reported as a separate component unit. For FY 2005, Commonwealth revenues are projected to be \$9.0 million or 6.6% of General Government Fund revenues. This is a slight increase from the budgeted 6.3% contribution in FY 2004. State assistance rose appreciably between FY 1999 and FY 2000, but varies less significantly in the past few years. Roanoke County does not anticipate continued higher funding and will remain as detached as possible from dependence on funds from the Commonwealth. No significant change in federal funding is predicted for FY 2005.

Following is a discussion of the County's major General Government Fund revenue sources in more detail with graphs illustrating historical trends from FY 1999 to FY 2003 and forecasts (denoted in white) for fiscal years 2004 and 2005. County officials with responsibilities related to General Fund revenues include the County Assessor, Commissioner of Revenue, and Treasurer. The County Assessor appraises all real estate, and the elected Commissioner of Revenue assesses all personal property. The Roanoke County Treasurer is an elected official responsible for the collection of all taxes and other payments made to the County.

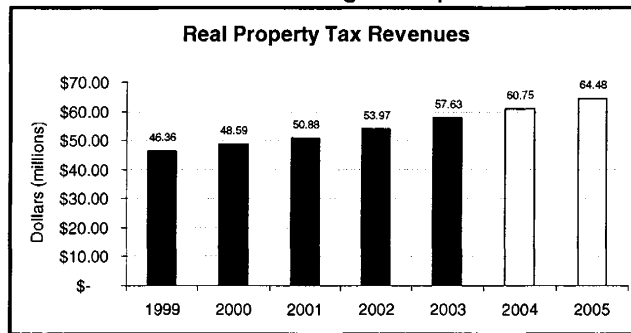
Real Estate Taxes

The real estate tax rate remains the same at \$1.12 effective for FY 2005. With this rate staying constant, the real estate taxes are estimated to generate 47.3%, or \$64.5 million, of the County's General Government revenue for FY 2005. This equates to a \$4.4 million increase over the FY 2004 amended budget. This increase is based on data showing that economic conditions have positively affected property values of existing residential and commercial units and encouraged new construction. The total assessed value of real property in Roanoke County increased 5.7% from FY 2002 to FY 2003. Economic development efforts within the County continue to expand and diversify the real estate tax base.

Increases in new construction lessens the reliance on market value assessments. In periods of unfavorable economic conditions, market value assessments of existing property

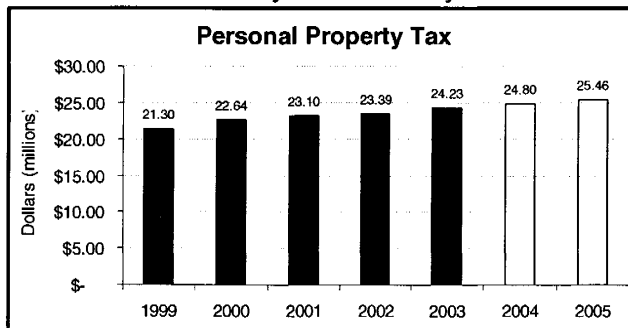
can decline. New construction helps stabilize assessments during such periods and can raise them further during periods of favorable economic conditions. Furthermore, new construction often is linked to increased employment, retail sales and financial activities.

The real estate tax rate is set on a calendar year basis with payments due on June 5 and December 5. Property is assessed at 100% of market value and the 2004 assessment to sales ratio was estimated to be 89.4%. Roanoke County has a successful annual reassessment program, first used in January 1987. Roanoke County anticipates collecting in excess of 97% of the total property tax levy each year, and regularly exceeds 99.5% collection when analysis includes subsequently paid delinquent taxes.



Personal Property Tax

The personal property tax is levied on the tangible property of individuals and businesses. For individuals, this is primarily automobiles and mobile homes. For businesses, personal property includes motor vehicles, machines, furniture, fixtures, and tools. Personal property taxes are due on May 31 of each year. The current tax rate is set at \$3.50 per \$100 of



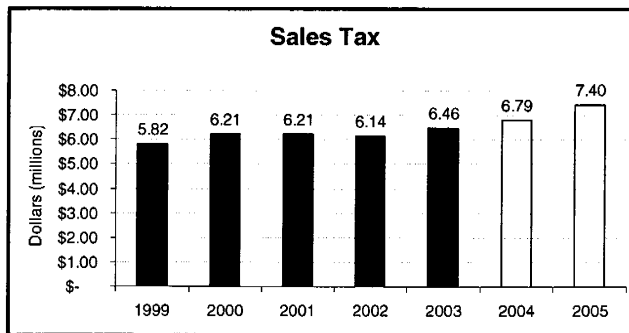
assessed value for tangible personal property and \$3.00 per \$100 of assessed value for machinery and tools. The Board of Supervisors establishes tax rates during the budget process. Personal property tax rates have remained at their current level since 1982. Roanoke County has operated under a proration program since 1987.

The Virginia Personal Property Tax Relief Act of 1998 eliminated the personal property tax on automobiles. Because personal property taxes provide the County's second largest revenue source, this legislation continues to threaten General Fund revenues. The elimination of the tax calls for the state to reimburse the lost local revenue with state funds. For Roanoke County this amounts to a mandated reliance on state appropriations; historically, the State has been an inconsistent revenue source.

Personal property tax revenue is estimated at \$25.5 million or 18.7% of total General Government revenues for FY 2005. This is a \$1,464,846 increase from the amended FY 2004 personal property tax budget. Economic uncertainty and historical trends warrant a conservative approach to estimating personal property revenues for FY 2005. Changes in the property taxes for automobiles will remain a concern as long as the County relies on the state for reimbursement. Decreasing used automobile values also threaten the property tax revenue. Localities no longer have the option of raising personal property tax rates to boost their revenue stream.

Local Sales Tax

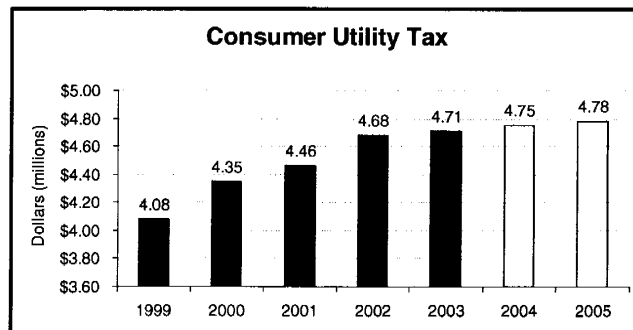
Virginia's sales tax rate is 4.5% and localities receive 1% of the sales tax collected in their jurisdiction. The local sales tax revenue estimate is \$7.4 million for FY 2005, and is a 16.1% increase from the FY 2004 amended budget. Sales Tax revenue will again provide approximately 5.0% of the County's total General Government Fund revenue in FY 2005. This revenue category is directly related to the strength of the economy, consumer confidence, and retail sales.



While retail sales nationally have been sluggish due to the slow down in the national economy, Roanoke County's sales tax receipts for FY 2004 have been slightly above the national trends with growth expected at around 10% above FY 2003 levels. This growth has been primarily fueled by the opening of several large retail entities such as Wal-Mart and Lowe's Home Improvement Store in the county. In FY 2005, the growth of retail sales remains a concern due to the high vacancy at the local shopping mall and the aforementioned uncertainty of national and regional economic conditions. Since this revenue projection is so dependent on external factors, the projection of sales tax revenue for FY 2005 will be examined carefully during the course of the fiscal year.

Consumer Utility Tax

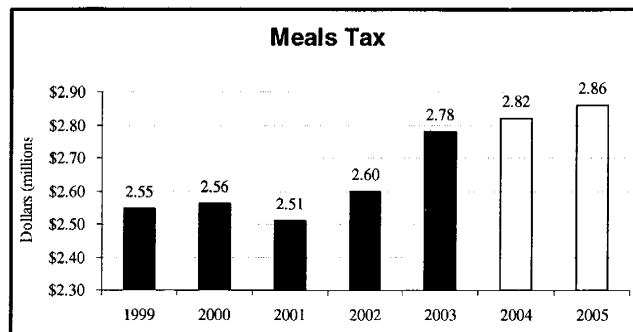
Estimated consumer utility tax revenues of \$4.8 million will provide 3.5% of the County's total General Fund revenue in FY 2005. The consumer utility tax rate was doubled in FY 1992. In November 1991, the Board of Supervisors sold \$15.0 million in general obligation bonds to pay for a portion of the cost of the Spring Hollow Water Project. To generate the revenue needed to fund the debt service on these bonds, the Board increased the consumer utility tax rate from 6% to 12%. In addition, when the rate was increased, residential water customers were added to the tax ordinance. The tax previously applied only to residential customers of telephone, gas, and electric services.



During FY 2000, the County reached an agreement with the City of Roanoke whereby the City after an initial payment would purchase water from the County. This agreement reduced debt on the Spring Hollow Reservoir that resulted in lower water rates for County citizens. Growth in this revenue source will be achieved primarily through the addition of new customers by way of commercial and residential development.

Tax on Prepared Foods (Meals Tax)

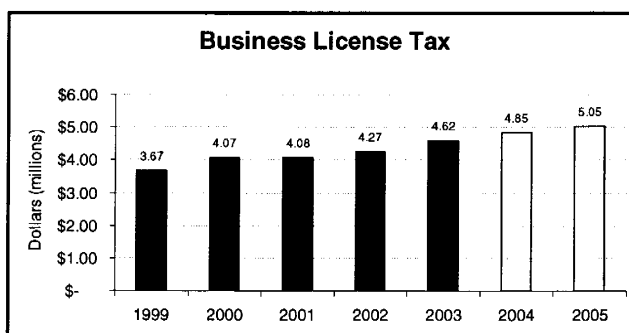
The 1988 session of the Virginia General Assembly enacted *Section 58.1-3833* of the Code of Virginia. This law allowed Roanoke County to adopt an ordinance imposing a tax on prepared food and beverages, not to exceed 4% of the amount charged. The Roanoke County Board of Supervisors unanimously voted to levy a 4% tax on these items; the tax was implemented on July 1, 1988.



Revenue from the tax on prepared foods is estimated at \$2.86 million in FY 2005. The revenue generated from this category has remained stable. Meals tax revenues comprise 2.1% of General Government revenue in FY 2005.

Business and Professional License Taxes

For several years, the state legislature and various business advocacy groups have targeted BPOL taxes for change or elimination. Tax rates for business and professional taxes experienced some significant changes in 1996. During the 1996 session of the General Assembly, House Bill 293 was passed and signed into law. The bill exempted businesses with gross receipts of \$100,000 or less from paying BPOL taxes; however, the bill contained provisions allowing localities to impose a filing fee of up to \$100 for all businesses. The bill set maximum limits (tax rates) on the various categories of BPOL administration. The County projected a revenue loss of \$460,000 because of the exemption of businesses with less than \$100,000 of gross receipts.



In an effort to avoid a net loss of revenue, the Board of Supervisors adopted a filing fee of \$50 for all businesses and imposed the maximum rate on two categories. It was believed that this action would recoup the initial projected loss of \$460,000. Recently, the General Assembly revoked the ability to impose a filing fee on businesses paying BPOL taxes. With this exclusion,

Roanoke County predicted that it would lose an additional \$75,000 in revenue.

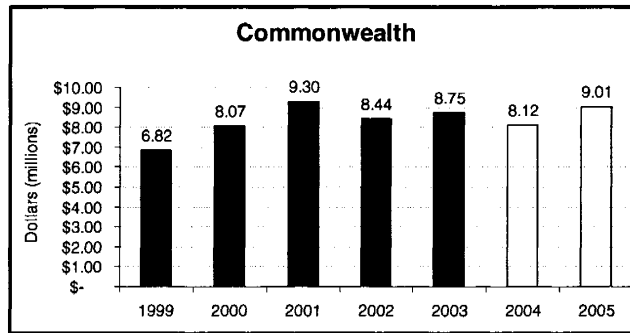
Although BPOL taxes were a large issue during the 1996 session of the General Assembly, they have not come under similar fire in recent years. It is likely that the General Assembly will again consider eliminating BPOL taxes or replacing them with other state level revenue sources. Projections of BPOL tax revenue for FY 2005 amount to \$5 million. Roanoke County expects BPOL tax revenue to comprise 3.7% of General Government Fund for FY 2005.

Revenue from the Commonwealth

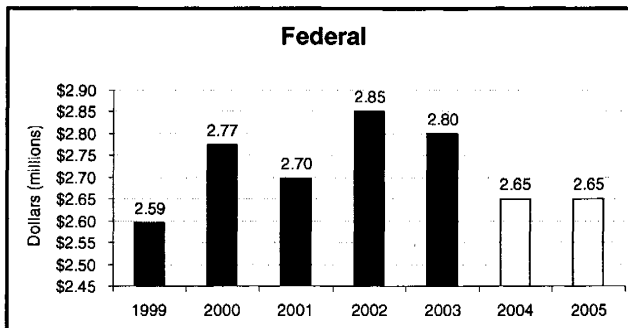
This revenue category consists of funds provided to the County from the State to operate specific programs in such areas as social services, law enforcement, and constitutional offices. Local flexibility is limited in the use of these funds. State funding of the County's school system is reported as a separate Component Unit.

Revenues from the Commonwealth of Virginia are expected to total \$9.0 million in FY 2005. State funding began to decline during FY 2001 and has continued to decline into the 2004 fiscal year. Slowed economic activity and overly optimistic revenue projections by the state resulted in the reduced funding stream from state lawmakers. The decline in state aid to localities is likely to continue in the future.

State commitments resulting from the Personal Property Tax Relief Act of 1998 and other political initiatives will keep levels of future state funding in question. If revenues from the Commonwealth do decline, Roanoke County will be forced to seek new revenue sources and enhance existing ones. The quantity and quality of services delivered by the County may require adjustment.



Federal Revenue



The majority of federal revenues for Roanoke County are pass-through funds for the Department of Social Services. Another small pass-through grant is from the Criminal Justice Service for the County's Victim/Witness program administered by the Commonwealth Attorney's Office. Federal revenues for FY 2005 are estimated at \$2.65 million, or 1.9% of total General Government

revenues, similar to FY 2004 projections. The decreases during fiscal years 2001 and 2004 were the result of the elimination of funding for mandated services and the discontinuation of some social service programs.

